FRUTAROM INDUSTRIES LTD.
DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDING JUNE 30, 2009

General

Frutarom Industries Ltd. ("Frutarom" or "the Company"), a global company, was established in 1933 and became a public company in 1996 with the registration of its shares for trade on the Tel Aviv Stock Exchange. In February 2005, the Company's Global Depository Receipts were listed on the London Stock Exchange Official List. Frutarom develops, produces and markets flavors and fine ingredients used to produce food, beverages, flavors, fragrances, pharma/nutraceuticals and personal care products. Frutarom operates production facilities in Europe, North America, Israel and Asia, and produces, markets and sells over 20,000 products to more than 13,000 customers in over 120 countries and employs approximately 1,450 people. Frutarom operates two divisions: the Flavors Division and the Fine Ingredients Division.

In recent years, Frutarom has implemented a strategy for achieving rapid and profitable growth, through a combination of internal growth in its core activities and strategic acquisitions in its field. These acquisitions strengthen Frutarom's position in the market, support its further strengthening and positioning as a leading global producer of flavors and fine ingredients and add new quality employees. Frutarom has extensive experience in successfully implementing mergers and is working to integrate the acquired activities with its existing operation and to extract the greatest synergy, both commercial and operational, in order to take best advantage of opportunities for cross selling, cost savings and margin improvement. In accordance with this strategy, Frutarom made seven acquisitions of companies and activities in 2007, which were successfully merged and integrated with its global activity. In the first half of 2009, three additional acquisitions were implemented, and Frutarom estimates that its solid capital structure and support from financial institutions will enable it to exploit opportunities created and which will be created as a result of the global crisis and to continue and execute strategic acquisitions in addition to the acquisitions already made in 2009.

In the last few months of 2008, the economic atmosphere in the world changed as the financial crisis spread to the global economy, significantly changing the growth trend characterizing most of the economies in the world in recent years, as well as the business environment in which Frutarom operates. Frutarom entered this challenging economic period as a leading global company, stronger-than-ever, with an experienced global management, an excellent variety of multinational and regional customers throughout the world, excellent technologies and products and an excellent pipeline of products under development, in collaboration with its many customers worldwide.. Frutarom has taken the necessary measures should the crisis continue, including by tightening the monitoring of its operational expenses and reducing them, which have contributed to the improvement of its competitiveness. At the same time Frutarom continues to strengthen its research and development and sales infrastructures to ensure its continued profitable growth.

In spite of the relative slowdown in the markets in which Frutarom operates, that results from the global economic crisis, Frutarom estimates that it maintained its market share with its customers. Frutarom estimates that with the stabilization of the global markets, the moderation of the fluctuations in currencies, the discontinuation of the inventory reduction trend and the gradual improvement in consumption, including in countries significantly affected by the devaluation in their currency rate, the Company will return to growth rates similar to those characterizing its activities in the past.

Following 2008 in which Frutarom focused on merging, consolidating and utilizing the significant synergy from the seven acquisitions made in 2007, Frutarom resumed the implementation of its acquisition strategy and has so far implemented three strategic acquisitions in 2009:

Acquisition of the Savory activities of Christian Hansen Ltd. in Germany:

On June 18, 2009, Frutarom acquired, through subsidiaries in Germany, the assets and the Savory activities of the Christian Hansen Group (hereinafter: **"CH"**) in Germany in consideration for a cash payment of approximately US$ 7.3 M (€ 5.275 M). The revenues of the activities acquired in 2008 (for the 12-month period ended on August 31, 2008) totaled approximately US$ 7.7 M (approximately € 5.6 M)[1].

CH's Savory activities develop, manufacture and market solutions for unique and innovative Savory flavors which include flavors, seasoning mixes and functional raw materials for the food industry with a special emphasis on the processed meat and convenience food field. The acquired activities have a broad customer base mainly among leading meat manufacturers in Germany as well as export activities to Scandinavia and UK. The activities are extremely synergetic to the activities of the German Gewurzmuller and Nesse which Frutarom acquired in 2007 and 2006.

The acquired activities have a manufacturing site in Holdorf, Germany, which is located approximately 140 km away from Frutarom's manufacturing site in Northern Germany. Frutarom have already completed, as planned, the transfer of most of the production activities from the Holdorf Site to its sites in Germany and it is expected to complete the transfer of the production in the coming weeks. The research and development, operations and purchasing, sales and customer service infrastructures have been integrated to achieve maximum efficiency and significant operational savings. Upon the completion of the operational integration, Frutarom will act toward achieving maximum utilization of the many cross-selling opportunities between the acquired activities and its existing activities in Germany.

[1] With respect to the financial data it will be emphasized that they are based on CH's managerial reports which were not audited or reviewed by an auditor and therefore the actual results may be different from the abovementioned financial data.

Acquisition of Flavor Specialties Inc. in the US:

On March 4, 2009, Frutarom acquired the assets and activities of the American company Flavors Specialties Inc. (hereinafter: "FSI") in consideration for a cash payment of US$ 17.2 M. FSI is a flavor and botanical extracts company that develops, produces and markets flavors and botanical extracts mainly for the food and beverage industry. Since the acquisition and during Q2 2009, Frutarom completed the merger and consolidation of FSI's activities with its existing activities in the US.

Acquisition of Oxford UK:

On January 30, 2009, Frutarom completed the acquisition of the assets and business of the UK Company Oxford Chemicals Limited (hereinafter: **"Oxford"**) in consideration for approximately US$ 12 M (£ 8.25 M). Oxford develops, produces and markets specialty ingredients for the flavor and fragrance industry.

Since the acquisition, Frutarom has acted and still acts to achieve the greatest commercial and operational efficiency from the integration of Oxford's activities with its existing activities in England, while achieving operational savings and optimizing the synergy with other Frutarom plants around the world, including Israel. As planned, Frutarom completed the merger and consolidated the research and development, operations, purchasing, marketing, and sales infrastructure with that of Oxford. In addition, Frutarom currently acts toward achieving maximum utilization of the many cross-selling opportunities between Oxford's activities and its existing activities.

Frutarom will continue to act determinedly to implement its rapid growth strategy, combining organic growth with strategic acquisitions. In addition, Frutarom considers the challenging and complex period which global economics undergoes as a business challenge, on one hand, and as opportunity for further strengthening, on the other.

Summary of the Company's Activity

Frutarom operates in the global flavors and fine ingredients markets. In the flavors market, Frutarom is active mainly in the segments of flavor compounds and food systems. In the fine ingredients market, Frutarom operates mainly in the segments of natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, specialty essential oils, unique citrus products and aroma chemicals.

The research company Leffingwell & Associates estimates the global market for flavors, fragrances and fine ingredients to be approximately US$ 20.5 billion in 2008. Frutarom does not operate in the market for fragrance compounds, but does operate in the markets for functional food ingredients (which is not included in the above estimation). Accordingly, the Company believes that the global market in which it operates had sales of approximately US$ 16 billion. Based on Leffingwell & Associates’ data, Frutarom is ranked globally as one of the top ten companies in the field of flavors and fragrances.

In 2007, SRI Consultants estimated that global sales in industrialized nations (the USA, Western Europe and Japan) in the flavors and fine ingredients markets in which the Company operates will grow at an annual rate of between 2% and 4% from 2006 to 2011. In accordance with these estimates, the growth rate in emerging markets in which Frutarom operates, such as Eastern Europe, China, India, and South America was expected to be significantly higher, reaching average annual rates of between 6% and 8% from 2006 to 2011, due to the expected increases in GNP and changes in consumer preferences in these markets. the Company predicts, in view of the global economic crisis, a significant slowdown (which is difficult to quantify) in growth rates for 2009. The consequences of the global economic situation may affect the levels of demand for Frutarom's products. Instability and weakness of emerging markets and sharp fluctuations in currency rates against the US dollar, may also affect the Company's results. As of the date of this report, the Company does not have any future information with respect to these issues and cannot estimate their effect on its future activities. Nevertheless, an analysis of previous economic crises shows that, compared to other industries, in most cases the food industry and industries related thereto have usually shown lower sensitivity to the effects of instability and slowdown in the macro-economic environment.

The Company's activity is divided into two main divisions, each of which is a major field of activity:

- **The Flavors Division** develops, produces, markets and sells flavor compounds and food systems used mainly to manufacture food, beverages and other consumer products. Frutarom develops thousands of different flavors, most of which are tailor-made for specific customers, and continuously develops new flavors in order to meet changing consumer preferences and future customer needs. The Flavors Division (the more profitable of Frutarom's Divisions) has experienced accelerated growth in recent years as a result of organic growth which is mainly based on the Division's focus on both developed and emerging markets, on global multinationals as well as mid-sized, local customers and the result of the successful implementation of strategic acquisitions.

- **The Fine Ingredients Division** develops, produces, markets and sells natural flavor extracts, natural functional food ingredients, natural pharma/nutraceutical extracts, essential oils, unique citrus products, aroma chemicals, and natural gums and stabilizers. The Division's products are sold principally to the food, beverage, flavor, fragrance, pharma/nutraceutical and personal care industries. The Fine Ingredients Division has experienced growth in recent years as a result of internal growth which is mainly the result of the development of new, innovative value-added products with higher than average margin and its focus on multinational, mid-sized and local customers worldwide. Most of the Division's products are natural products, which enjoy a higher demand than non-natural products. Frutarom works to expand the natural product portfolio it offers its customers, with particular emphasis on the functional food area. In addition, several strategic acquisitions implemented in recent years have also contributed to the growth in sales of the Fine Ingredients Division.

Frutarom focuses on large multinational customers as well as mid-size and local customers, offering each one the same superior service and tailor-made products. Frutarom concentrates on developed markets such as Western Europe and the United States, as well as fast growing emerging markets such as the CIS (former Soviet Union), Eastern Europe, Asia, and South and Central America. Frutarom offers its customers a wide product portfolio comprised mostly of natural and innovative, value-added products, such as natural functional food ingredients, and continues to invest substantial resources in the Company's research and development activities. As part of these research and development activities and to expand its offering of natural, innovative and unique products, Frutarom is cooperating with universities, research institutes and start-ups in Israel and elsewhere in the world.

Frutarom estimates, that in spite of the economical global crisis and the instabilities experienced by the global markets in recent months, the trends characterizing the markets of Frutarom's operation and the strategy it adopted will not change and will continue to contribute to a rapid and profitable growth in the medium-and long-term. Frutarom will continue to invest considerable efforts and resources in successfully implementing its rapid growth strategy in order to strengthen its positioning as one of the leading global companies in the field of flavors and fine ingredients, and to realize its vision:

"To be the Preferred Partner for Tasty and Healthy Success."

Results of Activity in the Second Quarter of 2009

Sales

In the second quarter of 2009, Frutarom's sales totaled US$ 106.7 M, a decrease of approximately 5.5% in local currency compared to the second quarter of 2008 in which Frutarom achieved record results. The strengthening of the US$ compared to the European currencies and the NIS (in which most of Frutarom's sales are made) in sharp rates of between 7% and 22% caused a decrease of 14.0% in sales. In dollar terms, the sales in the second quarter decreased by 19.5% compared to the same quarter last year. In spite of the decrease in sales, Frutarom estimates that it maintained its market share with its customers and that with the stabilization of the global markets, the completion of the inventory reduction process of its customers, the moderation of the fluctuations in currencies and the return to improved consumption, including in countries significantly affected by the devaluation in their currency rate, the Company will return to growth rates similar to those characterizing its activities in the past.

The decrease in sales in the second quarter results mainly from the following factors:

a. The continued affect of the global crisis and the world's economic slowdown which materially changed the growth trend characterizing in recent years most of the world's economies and the business environment in which Frutarom operates. The aforementioned economic slowdown significantly affected the North American economy as from last year's fourth quarter and was noticed more intensely in Europe during the first half this year.

b. As a result of the global crisis many of Frutarom's customers worldwide act intensively to reduce their inventory levels. This trend becomes more and more moderate and is expected to decrease significantly during the second half of the year.

c. The weakening of the West European currencies (Euro, CHF and GBP) and the NIS (in which most of Frutarom's sales are made) against the US$ at sharp rates of 7% to 22% contributed to a decrease of approximately 14.0% of Frutarom's sales in US$ terms.

On the other hand, the merger of Oxford which was acquired and consolidated as from February 1, 2009, of FSI which was acquired and consolidated as from March 4, 2009, and of CH's Savory activities in Germany which was acquired and consolidated as from June 18, 2009, contributed to the quarter's sales. The merger of the aforementioned activities contributed approximately US$ 5.6 M to Frutarom's sales in the second quarter of the year. CH's Savory activities marginally contributed to the quarter's sales as the acquisition was implemented in the second half of June, toward the end of the quarter.

Sales Breakdown by Fields of Activity in the second quarter of 2000-2009 (US$ M and %):

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Flavors Division	**Sales**	6.6	10.9	11.9	15.7	23.7	43.1	49.5	61.7	98.1	75.8
	%	32.2%	40.4%	41.7%	49.1%	53.1%	64.2%	68.4%	67.3%	74.0%	71.0%
Fine Ingredients Division	**Sales**	12.6	15.1	15.5	15.2	19.7	23.7	22.5	28.9	32.5	29.7
	%	61.8%	55.9%	54.4%	47.4%	44.2%	35.3%	31.1%	31.5%	24.5%	27.9%
Trade & Marketing	**Sales**	1.6	1.4	1.6	1.7	1.9	1.5	1.5	2.1	2.9	2.0
	%	7.8%	5.2%	5.7%	5.5%	4.2%	2.2%	2.1%	2.3%	2.2%	1.9%
Inter Division	**Sales**	-0.3	-0.4	-0.5	-0.6	-0.8	-1.2	-1.1	-1.0	-0.9	-0.8
	%	-1.8%	-1.5%	-1.7%	-1.9%	-1.8%	-1.8%	-1.6%	-1.1%	-0.7%	-0.8%
Total Sales		20.4	27.0	28.6	32.0	44.6	67.1	72.3	91.7	132.6	106.7

Gross Profit

In the second quarter of 2009, non-recurring expenses were included in cost of sales for the restructuring plan of the Company's activities in Germany, mainly due to the acquisition of CH's Savory activities in the amount of approximately US$ 0.2 M. In the second quarter of 2009, gross profit reached US$ 39.4 M compared to US$ 49.7 M in the same quarter of 2008, a decline of 20.7%. The decline in gross profit arises from the decrease in sales. Excluding non-recurring items, gross margin in the quarter reached 37.2% compared to 37.5% in the same period of 2008. Gross margin in the second quarter, including non-recurring items, reached 37.0%.

Selling and Marketing, Research and Development, Administration, General and Other Expenses

In the second quarter of 2009, non-recurring cost in the amount of approximately US$ 0.6 M was included in the expenses for the restructuring plan of the Company's activities in Germany, mainly due to the acquisition of CH's Savory activities compared to non-recurring income of US$ 0.9 M net recorded in the same quarter in 2008 as a result of the sale of real estate in Switzerland which was setoff by the expenses for the completion of the restructuring activities in the UK.

Selling, marketing, research and development, administration, general and other expenses totaled US$ 26.7 M (25.0% of sales) in the second quarter of 2009 compared to US$ 31.9 M (24.0% of sales) in 2008. The level of expenses was affected by the strategies taken by Frutarom's management with respect to reduction and achieving efficiency and from the strengthening of the US$ against the European currencies and the NSI, but they also include, as mentioned, non-recurring restructuring expenses of US$ 0.6 M in Frutarom's activities in Germany mainly due to the merger of CH's Savory activities.

Operating Profit and EBITDA

Excluding non-recurring effects in the second quarter (in the amount of approximately US$ 0.8 M), operating profit in the quarter reached US$ 13.6 M compared to an operating profit of US$ 17.0 M in the same period last year. Operating margin in the quarter is similar to the one reached in the same period last year and totaled 12.7% compared to 12.8%, in spite of the decrease in sales. Frutarom succeeded to maintain the level of operating margin due to the measures taken on an ongoing basis, and mainly recently, for reducing its expense level and achieving maximum efficiency. Concurrently, Frutarom continues to strengthen its research and development and sales infrastructures to ensure its continued profitable growth. Including non-recurring effects operating profit reached US$12.8 M compared to an operating profit of US$ 17.9 M in the second quarter last year, which was a record quarter for Frutarom, and operating margin reached 12.0% compared to 13.5% in the same period last year.

Excluding non-recurring effects EBITDA achieved by Frutarom in the second quarter of 2009 reached US$18.2 M, which comprises 17.1% of sales, compared to EBITDA of US$ 22.9 M in the second quarter of 2008 which comprises 17.3% of sales. Including non-recurring effects, EBITDA in the second quarter of 2009 reached US$ 17.4 M compared to US$ 23.8 M in the same quarter of 2008 and the EBITDA rate reached 16.3% compared to 17.9% during the same period last year.

Finance Expenses and Income

In the second quarter of 2009, finance expenses totaled US$ 0.1 M (compared to US$ 2.2 M in the second quarter of 2008). Interest payments in the amount of US$ 1.3 M for loans taken to finance the acquisitions made by the Company during 2007 and the beginning of 2009 were setoff by finance income resulting from currency differences which arise from the strengthening of the US$ mainly in Europe and in emerging markets. In the second quarter of 2008, finance expenses totaled US$ 2.2 M out of which US$ 2.0 M - for interest payments. The decline in finance expenses arises from the decline in interest rates in the last year and the weakening of the European currencies, in which most of the loans are presented, compared to the US$.

Profit before Tax

Profit before tax in the second quarter of 2009 totaled US$ 12.7 M (11.9% of sales) compared to US$ 15.7 M (11.9% of sales) in the same period last year.

Taxes on Income

In the second quarter of 2009, taxes on income totaled US$ 2.6 M (20.5% of profit before tax) compared to US$ 3.7 M in the same period last year (23.4% of profit before tax).

Net Profit

Excluding the aforementioned non-recurring effects, net profit in the second quarter of 2009 totaled US$ 10.7 M compared to US$ 11.2 M in the same period last year and net profitability grew to

10.0% compared to 8.5% in the same period. Including non-recurring effects, net profit reached US$ 10.1 M compared to US$ 12.0 M in the second quarter of 2008. Net margin reached 9.5% compared to 9.1% in the same period last year.

Earnings per Share

In the second quarter, earnings per share totaled US$ 0.18 compared to US$ 0.21 per share in the same quarter last year. Excluding the aforementioned non-recurring effects earnings per share in the quarter reached 0.19 compared to 0.20 in the same quarter last year.

Following is a summary of the profit and loss report for the second quarter of 2009 (US$ Ms)[2]:

	2009	**2008**
Sales	106.7	132.6
Gross profit	39.4	49.7
R&D, Selling, Administration, General and Other income	26.7	31.9
Operating profit	12.8	17.9
EBITDA	17.4	23.8
Profit before tax	12.7	15.7
Net profit	10.1	12.0

[2] Including non-recurring items.

Results of Activity in the First Half of 2009

Sales

In the first half of 2009, Frutarom's sales totaled US$ 205.1 M, a decrease of approximately 5.5% in local currency terms compared to the first half of 2008 in which Frutarom achieved record results. The strengthening of the US$ compared to the European currencies and the NIS (in which most of Frutarom's sales are made) at sharp rates of between 7% and 25% caused a decrease of approximately 13.9% in sales in the first half. In dollar terms, sales in the first half of the year decreased by 19.4% compared to the same period last year. As mentioned, in spite of the decrease in sales, Frutarom estimates that it maintained its market share with its customers.

The decline in sales during the first half year of 2009, results mainly from the factors aforementioned with respect to the sales of the second quarter of the year. The merger of the three acquisitions implemented so far during 2009 Oxford, FSI and CH's Savory activities contributed approximately US$ 9.1 M to Frutarom's sales in the first half of the year.

Sales Breakdown by Fields of Activity in the first half of 2000-2009 (US$ M and %):

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Flavors Division	**Sales**	13.4	20.0	22.7	28.4	42.6	83.4	94.2	111.6	182.5	143.1
	%	31.7%	39.1%	40.9%	47.2%	48.1%	63.3%	65.7%	64.8%	71.7%	69.8%
Fine Ingredients Division	**Sales**	26.5	29.0	30.5	29.3	43.6	47.1	48.0	58.0	67.8	59.3
	%	62.6%	56.6%	54.8%	48.7%	49.3%	35.7%	33.5%	33.7%	26.6%	28.9%
Trade & Marketing	**Sales**	3.1	2.9	3.3	3.5	3.6	3.3	2.9	4.7	6.6	4.2
	%	7.3%	5.7%	5.8%	5.8%	4.1%	2.5%	2.0%	2.7%	2.6%	2.1%
Inter Division	**Sales**	-0.7	-0.7	-0.8	-1.1	-1.3	-2.0	-1.8	-2.1	-2.3	-1.5
	%	-1.7%	-1.4%	-1.5%	-1.8%	-1.5%	-1.5%	-1.2%	-1.2%	-0.9%	-0.8%
Total Sales		42.3	51.2	55.6	60.2	88.5	131.8	143.3	172.2	254.6	205.1

Gross Profit

In the second half of 2009, non-recurring expenses were included in cost of sales for the restructuring plan of the Company's activities in Germany, mainly due to the acquisition of CH's Savory activities in the amount of approximately US$ 0.2 M and for the restructuring activities in the UK due to the acquisition of Oxford in the amount of approximately US$ 0.1 M.

In the first half of 2009, gross profit reached US$ 74.7 M compared to US$ 94.5 M in the same period of 2008, decline of 21.0%. The decline in gross profit arises from the decrease in sales. Excluding non-recurring effects, gross margin in the first half reached 36.5% compared to 37.1% in the same period of 2008. Gross margin in the first half, including non-recurring items, reached 36.4% compared to 37.1% in the same period of 2008.

Selling and Marketing, Research and Development, Administration, General and Other Expenses

In the second half of 2009, the expenses included non-recurring costs for the restructuring plan of the Company's activities in Germany, mainly due to the acquisition of CH's Savory activities, in the amount of approximately US$ 0.6 M and for the restructuring activities in the UK, due to the acquisition of Oxford, in the amount of approximately US$ 0.3 M. Those non-recurring costs are compared to a non-recurring net income of US$ 0.9 M recorded in the first half of 2008 resulting from the sale of real estate in Switzerland which was setoff by the restructuring expenses of the activities in the UK.

Selling, marketing, research and development, administration, general and other expenses totaled US$ 51.7 M (25.2% of sales) in the first half of 2009 compared to US$ 61.3 M (24.1% of sales) in 2008. The level of expenses was affected by the strategies taken by Frutarom's management with respect to reduction and achieving efficiency and from the strengthening of the US$ against the European currencies and the NSI, but they also include, as mentioned, non-recurring restructuring expenses of US$ 0.9 M in Frutarom's activities in Germany and in the UK.

Operating Profit and EBITDA

Excluding non-recurring effects in the first half of 2009 (in the amount of approximately US$ 1.2 M), operating profit reached US$ 24.1 M compared to an operating profit of US$ 32.3 M in the same period last year. Operating margin in the first half totaled 11.8% compared to 12.7% in the same period last year. Including non-recurring effects, operating profit totaled US$23.0 M compared to US$ 33.2 M in the first half last year and operating margin reached 11.2% compared to 13.0% in the same period last year.

Excluding non-recurring effects, EBITDA achieved by Frutarom in the first half of 2009 reached US$33.0 M, which comprises 16.1% of sales, compared to EBITDA of US$ 43.1 M in the first half of 2008 which comprises 16.9% of sales. Including the non-recurring effects, EBITDA in the first half of 2009 reached US$ 31.9 M compared to US$ 44.0 M in the same period of 2008 and the EBITDA rate reached 15.5% compared to 17.3% in the same period last year.

Finance Expenses and Income

In the first half of 2009, finance expenses totaled US$ 3.4 M (1.6% of sales) compared to US$ 5.0 M (2.0% of sales) in the first half of 2008. Finance expenses for loans decreased from US$ 3.7 M in the first half of 2008 to US$ 2.6 M in the first half of 2009 due to a decrease in total loans, a decline in the global interest rates and the weakening of the European currencies, in which most of the loans are presented, compared to the US$. Finance expenses for rate differences totaled US$ 0.8 M in the first half of 2009 compared to US$ 1.2 M in the same period last year.

Profit before Tax

Profit before tax in the first half of 2009, including non-recurring effects, totaled US$ 19.6 M (9.6% of sales) compared to US$ 28.2 M (11.1% of sales) in the same half last year.

Taxes on Income

In the first half of 2009, taxes on income totaled US$ 3.9 M (20.0% of profit before tax) compared to US$ 6.5 M in the same period last year (23.0% of profit before tax).

Net Profit

Excluding the aforementioned non-recurring effects, net profit in the first half of 2009 totaled US$ 16.5 M compared to US$ 21.0 M in the same period last year and net profitability reached 8.1%, similar to the net profitability achieved in the same period last year that reached 8.2%, in spite of the decrease in sales. Including non-recurring effects, net profit reached US$ 15.7 M compared to US$ 21.8 M in the first half of 2008. Net margin reached 7.6% compared to 8.5% in the same period last year.

Earnings per Share

In the first half, earnings per share totaled US$ 0.28 compared to US$ 0.38 per share in the same period last year. Excluding the aforementioned non-recurring effects, earnings per share in the first half reached 0.29 compared to 0.37 in the same period last year.

Following is a summary of the profit and loss report for the first half of 2009 (US$ Ms)[3]:

	2009	**2008**
Sales	205.1	254.6
Gross profit	74.7	94.5
R&D, Selling, Administration, General and Other income	51.7	61.3
Operating profit	23.0	33.2
EBITDA	31.9	44.0
Profit before tax	19.6	28.2
Net profit	15.7	21.8

[3] Including non-recurring items.

Financial Status

Total assets on June 30, 2009 totaled US$ 531.5 M compared to US$ 589.6 M on June 30, 2008 and US$ 510.8 M on December 31, 2008.

The Company's current assets totaled US$ 204.2 M compared to US$ 244.7 M on June 30, 2008 and US$ 214.5 M on December 31, 2008.

As at June 30, 2009, fixed assets minus accumulated depreciation and other net assets totaled US$ 322.5 M compared to US$ 339.0 M at the end of the second quarter last year and US$ 291.8 M on December 31, 2008.

The decrease in the level of assets arises mainly from the weakening of the European currencies compared to the US dollar.

Liquidity

During the second quarter of 2009, the Company continued to improve its cash flow generated from current activities that reached US$ 19.7 M compared to a cash flow of US$ 14.9 M achieved during the second quarter of 2008. In the first half of 2009 the Company generated a positive cash flow from current activities of US$ 30.4 M compared to US$ 8.6 M in the same period last year. The strong cash flow from current activities achieved by Frutarom and the strong support of leading financial institutions will enable Frutarom to further implement acquisitions in addition to the three acquisitions already implemented this year.

Sources of Finance

Sources of the Company's Shareholders' Equity

The Company's shareholders' equity as at June 30, 2009 totaled US$ 295.3 M (55.6% of the balance sheet) compared to US$ 281.7 M (47.8% of the balance sheet) as at June 30, 2008. The increase results from the periodic profit which was setoff by the decrease in capital fund from translation differences due to the strengthening of the US$ against the European currencies.

Long Term Loans Including Current Maturities of Long Term Loans (Average)

In the second quarter of 2009, the long-term credit from banks provided to the Company totaled US$ 133.9 M (US$ 133.3 M in the same period last year). The long-term credit was used to finance the acquisitions made by the Company in 2007 and in the beginning of 2009.

Short Term Loans Excluding Current Maturities of Long Term Loans (Average)

In the second quarter of 2009, short-term credit from banks provided to the Company totaled US$ 17.2 M (US$ 25.0 M in the second quarter of 2008).

As detailed in this report with respect to the Company's financial status, its liquidity, the positive cash flow it generates from its current activities and its sources of finance, and subject to the fact that there will not be a material adverse change in sales and/or in its profitability, the Company estimates that the cash flow from current activities generated thereby will enable the full repayment of its expected and existing liabilities without the need for external sources of finance.

Credit from Suppliers and to Customers (Average)

During the second quarter of 2009, the Company used credit from suppliers and other creditors in the amount of US$ 55.5 M (compared to US$ 112.1 M in the same period last year, in which the payables also included the future payment for the earn-out mechanism under the Nesse acquisition transaction).

During the second quarter of 2009, the Company provided to its customers credit which totaled US$ 73.0 M (US$ 95.4 M in the same period).

Disclosures about Market Risk

General

The Company's activity is characterized by significant dispersal. Through its two Divisions, the Company produces thousands of products intended for thousands of customers throughout the world, using thousands of raw materials purchased from a wide range of suppliers worldwide. The Company is not significantly dependent on any one of its customers, products or suppliers.

Responsibility for the Company's Market Risk Management

The person responsible in the Company for the management of market risks in the field of exchange rates and interest is Alon Granot, the Company's Executive VP, Chief Financial Officer. The people responsible for the management of market risks in the field of changes in the prices of raw materials are the activity managers. The Company's management and Board of Directors are updated on material changes in the Company's exposure to various risks, and conduct discussions as needed.

Description of Market Risk

A. Raw Material Price Risks

The Company is dependent on the supply of raw materials from third parties. Although the Company purchases raw materials from a very wide range of suppliers, with no single supplier representing more than 5% of its total raw material purchases, and although most raw materials purchased by the Company have more than one supplier and are for the most part widely available, there can be no guarantee that this will continue to be the case. Furthermore, the price, quality and availability of the principal raw materials used by Frutarom mainly in the natural products field are subject to fluctuations as a result of international supply and demand. Certain natural raw materials used by the Company are crop related, and their price, quality and availability could be adversely affected by unfavorable weather conditions, among others. The Company does not normally make forward transactions and is exposed to price fluctuations in the raw materials it uses in accordance with global price trends. In the last few years increases occurred in the prices of many raw materials, mainly natural, that are used by the Company in its production. In the last six months, a stabilization in the aforementioned trend has taken shape and a beginning of a decline in prices of raw materials used by Frutarom in its production is evident. The Company's Purchasing Department maintains an ongoing follow-up on raw materials prices.

B. Currency Risks

The Company's sales worldwide are conducted mainly in Euro, US dollars, Swiss francs, Pounds sterling, and Israeli Shekels. The fact that raw material purchases for Frutarom's production are also conducted in various currencies reduces currency exposure. Most of the non dollar monetary balances derive from the local activity of the subsidiaries in Europe and in Israel. The functional currency of these companies is the local currency, and therefore the currency translations of these balances do not influence the Company's finance expenses and are directly attributed to a currency translation capital fund. Currency exposure is reviewed as needed, on at least a quarterly basis. The Company does not generally take external hedging actions or use other financial instruments for protection against currency fluctuations.

C. Interest Risks

To the extent they are required, the Company's sources of bank finance, short and long term, are linked to the Euro, US dollar, the Swiss franc, the Pound Sterling, the Israeli Shekel (according to the activity in which the subsidiary is active) and bear variable Libor interest. The Company's policy is to not take protective steps against possible interest rises. As of the date of the balance sheet the Company did not hold any financial instruments, the Company had long term loans in an overall amount of US$ 92.3 M and the scope of its short term debt was US$ 56.4 M. The Company has cash flow reserves of approximately US$ 25.8 M as at June 30, 2009.

Sensitivity to Changes in the US Dollar- Israeli Shekel Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**4.311**	**4.115**	**3.919**	**3.723**	**3.527**
			US$ 000		
Cash and Equivalents	**(113)**	**(57)**	**1,132**	**57**	**113**
Customers	**(706)**	**(353)**	**7,056**	**353**	**706**
Other Debtors	**(490)**	**(245)**	**4,901**	**245**	**490**
	(1,309)	**(654)**	**13,089**	**654**	**1,309**
Bank Loans	**383**	**191**	**3,828**	**(191)**	**(383)**
Suppliers and Service providers	**471**	**236**	**4,713**	**(236)**	**(471)**
Other creditors	**316**	**158**	**3,157**	**(158)**	**(316)**
Total exposure, net	**1,170**	**585**	**11,698**	**(585)**	**(1,170)**
Cash and Equivalents	**(139)**	**(70)**	**1,391**	**70**	**139**

Sensitivity to Changes in the US Dollar-Pound Sterling Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	**+10%**	**+5%**	**-**	**-5%**	**-10%**
Exchange rate	**0.662**	**0.632**	**0.602**	**0.572**	**0.542**
			US$ 000		
Cash and Equivalents	**(113)**	**(57)**	**1,135**	**57**	**113**
Customers	**(671)**	**(335)**	**6,706**	**335**	**671**
Other Debtors	**(36)**	**(18)**	**359**	**18**	**36**
	(820)	**(410)**	**8,200**	**410**	**820**
Bank Loans	**2,579**	**1,289**	**25,790**	**(1,289)**	**(2,579)**
Suppliers and Service providers	**358**	**179**	**3,581**	**(179)**	**(358)**
Other creditors	**624**	**312**	**6,236**	**(312)**	**(624)**
Total exposure, net	**3,561**	**1,780**	**35,606**	**(1,780)**	**(3,561)**
סך חשיפה, נטו	**2,741**	**1,370**	**(27,406)**	**(1,370)**	**(2,741)**

Sensitivity to Changes in the US Dollar-Euro Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	0.779	0.744	0.708	0.673	0.637
			US$ 000		
Cash and Equivalents	(872)	(436)	8,717	436	872
Short term investments	(4)	(2)	44	2	4
Customers	(2,836)	(1,418)	28,358	1,418	2,836
Other Debtors	(213)	(107)	2,132	107	213
	(3,925)	(1,963)	39,252	1,963	3,925
Credit from banks	8,960	4,480	89,597	(4,480)	(8,960)
Suppliers and Service providers	1,009	504	10,088	(504)	(1,009)
Other creditors	868	434	8,684	(434)	(868)
Employee retirement rights liabilities	978	489	9,784	(489)	(978)
	11,815	5,908	118,155	(5,908)	(11,815)
Total exposure, net	7,890	3,945	(78,903)	(3,945)	(7,890)

Sensitivity to Changes in the US Dollar-Swiss Franc Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
Exchange rate	1.189	1.135	1.080	1.026	0.972
			US$ 000		
Cash and Equivalents	+10%	+5%	-	-5%	-10%
Customers	1.189	1.135	1.080	1.026	0.972
Other Debtors	+10%	+5%	-	-5%	-10%
	1.189	1.135	1.080	1.026	0.972
Credit from Banks	287	143	2,868	(143)	(287)
Suppliers and Service providers	392	196	3,920	(196)	(392)
Other creditors	467	234	4,670	(234)	(467)
Employee retirement rights liabilities	115	58	1,150	(58)	(115)
	1,261	630	12,608	(630)	(1,261)
Total exposure, net	(82)	(41)	818	41	82

Sensitivity to Changes in the US Dollar-Other Currencies Exchange Rate

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	US$ 000				
Cash and Equivalents	(282)	(141)	2,817	141	282
Customers	(543)	(272)	5,433	272	543
Other Debtors	(132)	(66)	1,322	66	132
	(957)	(479)	9,572	479	957
Credit from Banks	1	0	7	(0)	(1)
Suppliers and Service providers	51	25	507	(25)	(51)
Other creditors	66	33	665	(33)	(66)
Employee retirement rights liabilities	8	4	78	(4)	(8)
	126	63	1,257	(63)	(126)
Total exposure, net	(832)	(416)	8,315	416	832

Sensitivity to Changes in Interest Rate on Fixed Rate Loans – Fair Value Risk

	Profit (Loss) from changes		Fair value	Profit (Loss) from changes	
% of change	+10%	+5%	-	-5%	-10%
	באלפי דולר				
Long Term Loans (Euro)	30	15	4,043	(15)	(30)
Long Term Loans (CHF)	6	3	2,868	(3)	(6)
Total exposure, net	37	18	6,911	(18)	(36)

The Company's Policy Regarding Risk Management

A. The Company attempts to reduce currency exposure, whether economic or accounting, by balancing liabilities and assets in each of the various currencies in which the Group operates.

B. Executive VP Finance is responsible for managing the Company's currency exposure. The Company's policy does not determine any limit in terms of quantity for the exposure described above. The exposure level is examined on a regular basis by the Company's Financial Department. The managers of the activities are responsible for managing market risk as it relates to raw material prices. Ongoing follow up is conducted in this area and there is no limit in terms of quantity. Unusual occurrences, such as sharp devaluation trends in a target country or price change trends in important raw materials that may influence the Company's activity, are discussed by the Board of Directors.

During the Second Quarter of 2009 there were no material changes to the risk management policy and their way of management.

Supervision of Risk Management Policy and its Implementation

The Company's management discuss every quarter the implementation of the risk management policy as relates to currency exposure and interest. The Chief Financial Officer reports of the exposure to the Board of Directors each year. Exposure to raw material prices is examined by the Purchasing Department and Management of the Activities on a regular basis, and the Board of Directors is being reported as necessary. In the second quarter of 2009 there were no deviations from the planned policy. The Company does not use financial instruments for its protection.

Distribution of Dividend in 2009

On March 18, 2009, the Company's Board of Directors declared the distribution of a cash dividend of NIS 0.18 per share, totaling NIS 10.4 M. April 21, 2009 was set as the record date and the dividend was distributed on May 6, 2009.

Allocation of shares

On May 5, 2009, the Company allocated 40,000 ordinary shares of NIS 1 par value each as a result of the exercise of options granted to a senior officer in 2005. The exercise price totaled NIS 434,800 (US$ 0.105 M). Subsequent to the exercise, the Company's issued and paid share capital is NIS 57,826,357.

Critical Accounting Estimations

Preparation of the financial reports of the Company in accordance with IFRS demands the use of critical accounting estimates, which obliges the management of the Company to use its judgment in the process of implementing the general accounting policies of the Company, to prepare estimates and make assumptions that influence the amounts presented in the attached financial reports.

Below are the critical accounting estimations used in preparing the financial reports of the Company; during their implementation, management was required to make assumptions regarding circumstances and events involving significant uncertainty. In using its judgment to determine these estimates, the management of the Company based itself upon past experience, various facts and on reasonable assumptions in accordance with the suitable circumstances for each estimate. The actual results may be different from management's estimates. Regarding the material accounting estimates used in preparing the financial reports of the Company, refer also to note 4 to 2008 annual financial reports.

Taxes on Income and Deferred Taxes

The Company is assessed for tax purposes in numerous jurisdictions; accordingly, the Company's management is required to exercise judgment in order to determine the overall provision in respect of taxes on income. The Company makes many transactions for which the final tax determination is uncertain. The Company records provisions in its books based on its estimates of whether additional taxes will be due on these transactions. Where the final tax outcome of these matters as determined by the tax authorities is different from the amounts that were initially recorded, such differences will be carried to income and loss in the period in which the final tax assessment is determined by the tax authorities.

The Company also records deferred tax assets and liabilities based on the differences between the book value of its assets and liabilities and the amounts taken into account tax purposes. The Company regularly reviews its deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Company is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and an adverse impact on operating results.

Severance Pay

The present value of the Company's liabilities in respect of severance pay is dependent on several factors that are determined on an actuarial basis in accordance with various assumptions. The assumptions used in the calculation of the net cost (income) in respect of severance pay include the long term yield rate on the related severance pay funds and the discount rate. Changes in those assumptions will influence the carrying amount of the assets and liabilities in respect of severance pay. The assumption regarding the expected yield on severance pay funds is determined uniformly in accordance with long term historical yields.

The assumption regarding the required discount rate is determined by the Company at the end of each year. This discount rate shall be used in determining the estimated updated value of the future cash flows that would be required to cover the severance pay liabilities. The market of high quality corporate bonds is not sufficiently liquid to serve as the basis for determining the discount rate. Therefore, in determining this rate the Company uses interest rates applicable to governmental bonds denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related liability.

Other key assumptions relating to pension liabilities, such as future payroll raises, are based on existing rates of payroll inflation.

Provision for Contingent Liabilities

Contingent provisions for legal liabilities are recorded in the books in accordance with the judgment of the Company's management regarding the likelihood that the cash flows will be used to meet the liabilities, and on the basis of the estimate determined by the management regarding the present value of the expected cash flows that would be required to meet the existing liabilities.

Provision for Impairment in Respect of Goodwill and Intangibles

Once a year, the Company reviews the need to provide for impairment of goodwill and intangibles. The need to make such a provision is assessed in relation to the recoverable value of the cash generating units of the Company. The recoverable amount of a cash generating unit is determined in accordance with the assumptions and calculations made by management.

Independent Directors

Effective on the date of this report, the Company did not adopt in its Articles of Association the Instruction with respect to the Ratio of Independent Directors (as such term is defined in the Companies Law – 1999).

Directors with Accounting and Financial Expertise

The Company's Board of Directors has determined that the minimum number of directors with accounting and financial expertise will be set at two. This number takes into account the character of the Company's activity, its complexity and size. The Board believes that this minimum number will enable it to meet its obligations according to law and the Company's Articles of Association, and especially relating to its responsibility to check the Company's financial status and to prepare and approve the financial reports.

The directors with accounting and financial expertise are: Dr. John Farber, Mr. John Oram, Mr. Hans Abderhalden, Mr. Yacov Elinav, Mr. Isaac Angel, and Mr. Yair Seroussi

Peer Review of the Auditors' Work

In accordance with the instructions of the Israeli Securities Authority of July 28, 2005, regarding the disclosure of consent to perform a peer review whose goal, according to the stated instructions, is to put in place a process of control on the audit work performed by the auditor, which will contribute to the existence of an advanced capital market, the Company agreed to the transfer of the information required to perform a sampling related to the peer review. The Company's consent was given subject to obtaining the auditor's commitment according to which before beginning a review of the material relating to the Company, the Company's auditor will certify that the accountants performing the review commit to maintaining all material transferred to them as part of the peer review procedure in confidence and to avoid any situation of conflict of interests.

Disclosure Regarding the Approval Process for the Financial Reports

The Company's financial reports are submitted for approval by the Board of Directors, the organ in charge of the Company's ultimate supervision. The Board of the Company has seven members, of whom six have accounting and financial expertise. The members of the Board receive the draft financial reports, the directors' report and the managerial report of the Company's management several days before the date of the Board meeting at which the reports are brought for their approval. The Company's auditors and members of the Company's senior management, including the president and CEO and executive vice presidents and CFO, are also invited to attend the meeting. The internal auditor of the Company is also present at this meeting. During the meeting, the president and CEO and the executive vice president – CFO present the financial results of the Company for the relevant period, in comparison to previous periods and with emphasis on special events that occurred during the period. During the presentation of the financial results of the Company, the Company's management answers questions and relates to the directors' comments. In addition, the Company's management comprehensively reviews the Company's state of business and the developments occurring therein during the relevant period. Following presentation of the Company's financial results and the management's review, the Company's auditors answer any questions the directors may have. Finally, the Board votes on whether or not to approve the financial reports and the directors report and submit them to the securities authorities and stock exchanges. All of the members of the Board of Directors were present at the Board meeting held on August 26, 2009, when the reports were approved. All voted in favor of approving the reports.

The Board of Directors of the Company held two meeting during the first half of the year.

The Board of Directors thanks Frutarom's employees and management for the contribution, the determination and the achievements implemented during this challenging period.

Dr. John J. Farber	Ori Yehudai
Chairman of the Board	President & CEO

August 26, 2009